



THE SENIORS COALITION

Working for a Responsible America

The Seniors Coalition Response Universal Service Fund Reverse Auction Proceeding The Federal Communications Commission

**WC Docket No. 05-337
October 9, 2006**

The Seniors Coalition (TSC) is a non-partisan senior advocacy group organized as a 501(c)(4) tax-exempt organization that is dedicated to protecting the retirement security of all seniors. TSC is particularly concerned with the growing burden which universal service fund (USF) fees have been imposing on seniors and on low-income consumers (many seniors are either low-income or are getting by on fixed and limited incomes and can ill afford unfair and regressive taxes for essential services such as landline and wireless telephone service).

TSC's members have expressed strong concerns about the negative economic impacts of rapidly escalating regulatory fees and taxes on telecommunications services seniors rely upon for personal safety and maintaining critical communications with family members and caregivers. The public policy decisions of the Federal Communications Commission (FCC) dramatically impact the financial ability of seniors to access these important communications technologies. Seniors are among the most economically fragile consumers who have been literally bludgeoned by the increasing array of taxes and regulatory surcharges that have been imposed on telephone services. Because of these concerns about the adverse impact of excessive taxes and fees on the affordability to seniors of essential telecommunications services, TSC favors the proposal to utilize reverse auctions as the mechanism for awarding USF high cost support, and encourages the Joint Board and the Commission to adopt a reverse auctions approach.

The Universal Service Fund fails in its expressed goal to extend service to underserved consumers, and forces significant numbers of vulnerable consumers to cancel or forego telephone services.

In a study commissioned for TSC, by Thomas W. Hazlett, Professor of Law & Economics and Director, Information Economy Project, George Mason University, and Senior Advisor to the Analysis Group (copy of the study is attached), Dr. Hazlett provided a damning assessment of the effectiveness of the USF:

“The “universal service” regime ostensibly extends local phone service to consumers who could not otherwise afford it. To achieve this goal, some \$7 billion annually is raised – up from less than \$4 billion in 1998 – by taxing telecommunications users. Yet, benefits are largely distributed to shareholders of rural telephone companies, not consumers, and fail – on net – to extend network access. Rather, the incentives created by these subsidies encourage widespread inefficiency and block adoption of advanced technologies – such as wireless, satellite, and Internet-based services – that could provide superior voice and data links at a fraction of the cost of traditional fixed-line networks. Ironically, subsidy payments are rising even as fixed-line phone subscribership falls, and as the emergence of competitive wireless and broadband networks make traditional universal service concepts obsolete. Unless policies are reformed to reflect current market realities, tax increases will continue to undermine the very goals “universal service” is said to advance.”

To pay for the USF, the tax rate applied to long distance charges has risen from 3.2% in 1998 to its current level of 9.1% for the fourth quarter 2006. This ever-increasing tax on consumers is forcing seniors on fixed incomes to abandon telephone services they desperately need, thereby increasing the danger to the health and safety of this at-risk population.

In a national study of 860 seniors conducted by Opinion Research Corporation and commissioned by The Seniors Coalition in March 2006 (a copy of the study is attached) that assessed the impact of fees on senior phone bills, a compelling case is made to protect seniors from unfair and regressive taxes on telephone services. *[This survey measured the impacts of the proposed USF fee change at the federal level currently based on usage fees to a per telephone line charge.].* Among the Opinion Research study’s conclusions are the following:

- Half of all older Americans – and an even larger 55 percent of those who said they are on a “fixed income” – would have to cut back on long-distance phone calls if their phone bill was raised by \$1 to \$2 every month in higher phone fees.
- More than three-fifths (62 percent) of the lowest-income seniors would have to cut back on long-distance phone calls if their phone bill was raised by \$1 to \$2 every month in higher phone fees.
- A third of all seniors – and 38 percent of those who said they were on a “fixed income” – reported that they already have had to “cut back on your long-distance calling in the last two years in order to save money needed for other things, such as prescription drugs, heating bills and other energy charges, or other expenses.”

- Nearly four out of five older Americans (79 percent) reported that they are living on a “fixed income.”

The critical point here is that affordable phone service -- especially wireless service -- is an essential component of seniors' safety and health, and that is so irrespective of whether the seniors live in so-called “high cost” areas or elsewhere. Seniors purchase wireless services to provide a level of security and personal safety when they leave their homes for a doctor's appointment, to fill a needed prescription, or to buy basic food supplies. The greatest fear these seniors have is that they will miss the bus, a pre-arranged ride will fall through, or they will encounter an unexpected personal health emergency. Stripping these seniors of the affordable access to this critical safety tool essentially endangers the very population the USF was purportedly supposed to be protecting.

The Universal Service Fund, as it is presently structured, wastes billion(s) of dollars in outlays to fund inefficient rural ILECs that provide excellent stockholder returns on equity, but serve relatively few customers in rural areas.

TSC supports the overall objectives of universal service, but the USF must be managed efficiently so as to ensure that the subsidy moneys are used to deliver affordable telecom service to those that need subsidization, either because they are low-income or because they reside in places where the costs of providing service are unusually high. Policy recommendations under consideration by the FCC currently largely focus on the need to enhance the revenue stream into the USF -- all code words for increasing the USF taxes.

Hazlett concludes in his report that “reforms that accommodate further spending increases in the USF are recipes for disaster. Raising telecommunications taxes is precisely the reverse of what policy makers should be doing, as this dynamic sector supplies crucial infrastructure enabling productivity growth economy-wide.”

TSC strongly endorses a strategy of first controlling the USF outlays by utilizing a reverse auction approach to reimburse for high cost support to the provider who can provide service (based on reasonable uniform standards) for the least amount of money.

A reverse auction approach would discard the current distribution method in which incumbent providers (especially rural ILECs) receive USF subsidization based on their embedded costs, even if other providers can provide service to those consumers who need support with less subsidization is causing the rest of the consuming public to bear the enormous cost of this inefficiency.

There are two reasons why the USF has grown into a \$7 billion fund, much of which is simply fleecing the taxpayers who are forced into paying the freight for this grossly inefficient distribution system:

- compensating ILECs based on their embedded costs

- compensating multiple providers based on the ILECs' embedded costs.

The FCC must abandon this distribution method in favor of one that allows for competitive providers to bid to offer telecommunications services to consumers within specified service areas at the lowest cost to the USF. The Hazlett study documents that a reverse auctions approach could immediately save the consuming public, including seniors and low income consumers \$1 billion or more – and ultimately serve more consumers.

The bottom line: Universal service should mean affordable service for everyone.

Requiring the vast majority of telecommunications service consumers to pay more for service (*i.e.*, to make the service less affordable) so that some consumers may pay less (or, more accurately, so that some providers may receive additional revenues) actually undermines universal service goals since the additional cost borne by contributors to the fund -- especially an inefficiently managed and growing fund -- will make phone service less affordable for many consumers who are contributors, not recipients, especially seniors and low income consumers.

A reverse auction system is technology neutral since it neither favors nor disfavors any technology -- whichever provider can provide service with the least high support would receive the high cost support from the USF. It is competitively neutral since all competitors -- landline, wireless, satellite, other, will have the same opportunity to compete in the auction process.

The adoption of a reverse auction distribution method should result in an immediate reduction of the current 9.1% USF tax on telephone bills, and thereby increase access to these technologies by low- and fixed-income consumers,

It would not be enough for the FCC to embrace the reverse auction process to dramatically reduce outlays from the USF. It will require the political courage to actually return the tax funds that are being unfairly collected from users who should not have been forced to fund this highly inefficient system to date. The immediate reduction in the tax rate, commensurate with the savings achieved under the reverse auction procedure, is not even sufficient to compensate taxpayers for the egregious failures of the USF to date.

Conclusion:

TSC commends the FCC and the Joint Board for commencing this proceeding and soliciting public views on how to best distribute USF high cost support and for specifically proposing a reverse auction approach. This should be the highest priority universal service issue before the FCC, and the FCC should not make other changes – or even consider them (such as changes to the contribution methodology) -- until it addresses means for limiting the size of the fund and ensuring that fund proceeds are used to ensure affordable service in the most efficient manner to all consumers who need such support.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read "Mac Haddow", with a stylized flourish at the end.

Mac Haddow
Chairman, Policy Advisory Council
The Seniors Coalition
4401 Fair Lakes Ct.
Suite 210
Fairfax, VA 22033
(703)754-6404
mhaddow@comcast.net